

# FDIC State Profile

Spring 2005

## Nevada

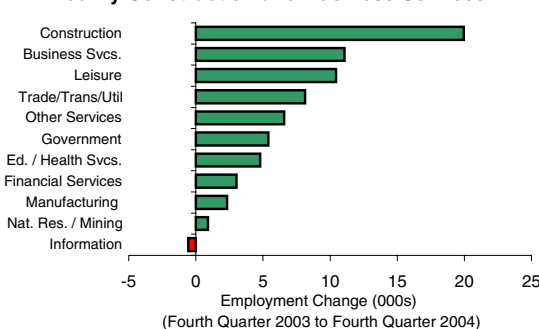
Nevada had the strongest job growth of any state in the nation during fourth quarter 2004.

- Year-over-year job growth in Nevada was 6.5 percent in fourth quarter 2004, faster than any other state. Strong growth is expected to continue through 2005.
- The construction sector was the largest contributor to job growth, adding 20,000 positions during the year and accounting for over 28 percent of new jobs (See Chart 1). Both **Las Vegas** and **Reno** were reliant on job gains in the sector and could be especially vulnerable if construction activity retreats.
- The Las Vegas tourism sector set records in 2004 for visitor counts (37.4 million) and weekend hotel occupancy rates (95 percent). As a result, job gains in the leisure and retail trade sectors were solid. In contrast, the Reno tourism sector continued to report sluggish performance in 2004.
- The business services sector continued to be a source of strength for Nevada, adding over 11,000 jobs.

**Robust economic growth fed the state's housing market, particularly in Las Vegas, which had the highest annual home price growth in the nation.**

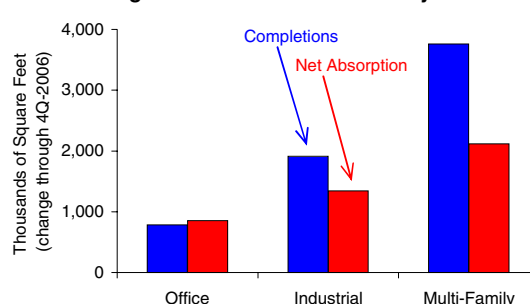
- During fourth quarter 2004, annual home price growth in Las Vegas was the highest in the nation among major metropolitan areas at 36.2 percent, but was modestly slower than third quarter growth rates.
- Nevada reported record 1-4 family residential permit issuance in 2004. In particular, per capita permit issuance was over three times the national rate in **Clark** and **Lyon** counties. Clark County (Las Vegas metropolitan area) activity was driven by strong demand for homes among both residents and investors. Lyon County likely benefited from its location as a central corridor for rail and truck transportation as well as its distinction as a shipping hub for several corporations, including Amazon.com.
- Consistent with housing activity, Nevada headquartered insured institutions reported the fastest median 1-4 family mortgage growth rate among the states in 2004. Concentrations of mortgages to capital still remained low in relation to other areas of the nation. However,

**Chart 1: Most Major Sectors Added Jobs in Nevada, Led By Construction and Business Services**



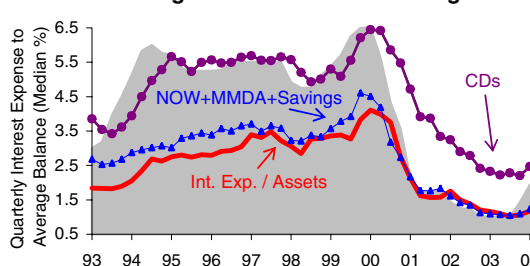
Source: Bureau of Labor Statistics

**Chart 2: Absorption Expected to Lag Completions in the Las Vegas Industrial and Multi-Family Markets**



Note: 2006 data are forecasted by Torto Wheaton Research  
Source: Torto Wheaton Research

**Chart 3: High Core Deposit Exposures Muted the Effects of Rising Interest Rates on Funding Costs**



Note: Includes Call Report filers only. NOW is negotiable order of withdrawal; MMDA is money market deposit account; CD is certificate of deposit. Gray shaded area denotes average target Federal Funds rate for the quarter.  
Sources: FDIC; Federal Reserve

construction and development (C&D) loan portfolios likely represent a more significant source of vulnerability to home price trends—the state’s median C&D loan-to-Tier 1 capital ratio was 131 percent, the second highest concentration among the states.<sup>1</sup>

- In addition to a strong economy, low interest rates and rapid home price appreciation contributed to continued declines in past-due 1-4 family mortgage ratios. Anecdotal reports suggest that defaults may have also been suppressed by recent investor purchase activity.<sup>2</sup>

### Commercial real estate (CRE) conditions are strong but may deteriorate.

- As of year-end 2004, vacancy rates in the Las Vegas office, industrial, and multifamily real estate sectors were among the best nationwide. However, over the next two years, multifamily and industrial construction may exceed demand and lift availability rates (See Chart 2).
- The Las Vegas hotel market remained strong, reporting higher occupancy rates and revenue per available room.
- The majority of Nevada-based insured institutions could be affected if availability rates increase significantly. In fourth quarter 2004, Nevada institutions reported concentrations of CRE loans to capital of 448 percent, second highest only to Arizona in the nation.<sup>3</sup> Although concentrations are high, low interest rates and rapid loan growth facilitated low and declining past-due CRE ratios.

### Despite rising funding costs, margins expanded.

- In late 2004, quarterly interest expense ratios among Nevada-based banks increased modestly in tandem with rising short-term interest rates, a trend that is expected to continue as deposit pricing incorporates recent and anticipated short-term interest rate hikes (See Chart 3).
- More than half of Nevada-based institutions used brokered deposits, up from 14 percent five years ago. Among users, brokered funds typically supported just under 5 percent of assets. These deposits require competitive pricing and would likely be very sensitive to changes in short-term interest rates.
- However, high exposures to low-cost checking and savings accounts may soften the effect of rising interest rates on overall interest expense ratios in Nevada. Interest-bearing checking and savings accounts funded 45 percent of assets

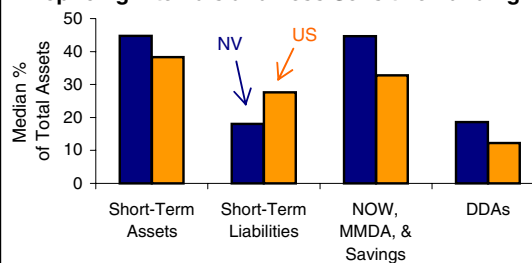
on a median basis, significantly higher than the 33 percent median ratio reported nationwide.<sup>4</sup> Also, the median noninterest-bearing deposit account-to-total asset ratio of 19 percent ranked sixth among the states. These sources of funding have traditionally been less sensitive to short-term interest rate hikes.

- Net interest margins widened on a quarterly basis as 2004 wore on, and may continue to expand in 2005 given high exposures to assets that mature or reprice in one year and low cost funding structures in the state (See Chart 4).

### Earnings and asset quality performance was strong, but portfolios are unseasoned.

- Improved net interest income buoyed the median year-to-date return on assets (ROA) ratio from 1.03 to 1.32 percent. Declining overhead and provision expense burdens also lifted ROAs. Although lower problem loan levels helped justify declining loan loss provision expenses, loan loss reserves did not keep pace with overall loan growth, causing the median loan loss reserve-to-total loan ratio to fall to 1.15 percent in fourth quarter 2004. Interest rate increases and portfolio seasoning may lift loan default activity from current lows and bring provision expenses up to more normal levels.
- Nevada-based insured institutions reported the fastest median loan growth rate among the states, driven in part by the high proportion of young institutions.

**Chart 4: Nevada-Based Banks Report Short Asset Repricing Intervals and Less Sensitive Funding**



Note: Includes Call Report filers only. NOW is negotiable order of withdrawal; MMDA is money market deposit account; CD is certificate of deposit; DDA is demand deposit account. Short-term includes instruments with contractual maturity or repricing in less than 1 year. Source: FDIC (as of December 31, 2004)

<sup>1</sup>Although quarterly data filed by insured institutions do not distinguish between commercial and residential C&D loans, anecdotal reports suggest a portion of C&D exposures relate to home building.

<sup>2</sup>Foreclosures.com: Las Vegas Foreclosures Trending Up", Business Wire via Forbes.com, January 24, 2005.

<sup>3</sup>CRE includes construction, multifamily, and nonfarm-nonresidential mortgages.

<sup>4</sup>NOW is negotiable order of withdrawal (an interest-bearing checking account with restrictions); MMDA is money market deposit account (an interest-bearing savings vehicle with limited check-writing privileges).

## Nevada at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	6.5%	4.2%	2.5%	-0.3%	3.8%
Manufacturing (4%)	5.3%	1.7%	0.9%	-1.1%	4.5%
Other (non-manufacturing) Goods-Producing (11%)	18.1%	11.4%	2.4%	0.6%	-0.5%
Private Service-Producing (73%)	5.3%	3.8%	2.2%	-1.1%	4.5%
Government (12%)	3.9%	1.4%	4.6%	3.8%	3.1%
Unemployment Rate (% of labor force)	4.0	4.9	5.4	5.7	4.7

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	8.3%	4.0%	3.7%	6.9%
Single-Family Home Permits	-12.8%	10.1%	29.0%	-6.4%	11.4%
Multifamily Building Permits	-67.9%	21.8%	28.2%	-21.3%	75.0%
Existing Home Sales	2.1%	30.4%	31.7%	10.5%	16.3%
Home Price Index	32.4%	13.4%	6.6%	6.8%	4.8%
Bankruptcy Filings per 1000 people (quarterly level)	1.41	2.11	2.23	2.00	1.67

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	38	37	36	36	34
Total Assets (in millions)	56,085	59,206	40,525	35,378	38,660
New Institutions (# < 3 years)	5	5	9	11	12
Subchapter S Institutions	4	3	3	3	3

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.45	0.79	1.57	1.59	1.71
ALLL/Total Loans (median %)	1.15	1.25	1.33	1.47	1.46
ALLL/Noncurrent Loans (median multiple)	3.06	3.21	1.91	1.95	2.78
Net Loan Losses / Total Loans (median %)	0.02	0.19	0.19	0.28	0.14

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.78	9.39	10.01	10.27	11.57
Return on Assets (median %)	1.32	1.03	0.88	0.71	0.93
Pretax Return on Assets (median %)	1.90	1.56	1.16	0.95	1.08
Net Interest Margin (median %)	4.85	4.77	4.83	4.94	5.55
Yield on Earning Assets (median %)	6.01	6.38	7.01	8.31	9.82
Cost of Funding Earning Assets (median %)	1.23	1.39	1.79	3.73	4.01
Provisions to Avg. Assets (median %)	0.23	0.32	0.46	0.53	0.73
Noninterest Income to Avg. Assets (median %)	0.34	0.45	0.47	0.48	0.61
Overhead to Avg. Assets (median %)	2.92	3.24	3.71	3.76	4.28

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	72.5	73.1	74.2	71.9	68.7
Noncore Funding to Assets (median %)	15.8	17.7	19.2	19.3	15.1
Long-term Assets to Assets (median %, call filers)	10.4	11.0	11.0	8.2	8.6
Brokered Deposits (number of institutions)	20	19	16	10	6
Brokered Deposits to Assets (median % for those above)	4.7	6.6	7.2	7.2	7.2

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	95.3	102.3	89.6	120.5	85.0
Commercial Real Estate	447.9	384.3	348.1	312.8	255.9
Construction & Development	130.7	134.8	88.4	70.7	72.2
Multifamily Residential Real Estate	4.9	4.7	4.6	4.7	2.6
Nonresidential Real Estate	265.6	239.9	210.2	105.4	135.9
Residential Real Estate	38.2	29.5	33.7	32.3	44.9
Consumer	6.7	10.1	12.5	26.2	21.7
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Las Vegas-Paradise, NV	40	28,526	< \$250 mil.	19 (50%)
Reno-Sparks, NV	16	9,098	\$250 mil. to \$1 bil.	8 (21.1%)
Carson City, NV	14	990	\$1 bil. to \$10 bil.	10 (26.3%)
			> \$10 bil.	1 (2.6%)